

**BRIEF CASES****2510**

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The Springfield Nor'easters: Maximizing Revenues in the Minor Leagues

It was barely 8 a.m. on January 19, 2008 and already Larry Buckingham knew this would be a trying day. Buckingham, marketing director for the Nor'easters, a new Class A minor league baseball team in Springfield, Massachusetts, had already taken telephone calls from two local reporters seeking comment on the news that the city's only other professional sports team, the Falcons, a minor league ice hockey team, might leave the city. Many people in the region had heard a radio interview the previous day in which the Falcons' general manager announced that unless the team sold 300 more season tickets for the upcoming season, the Falcons would be leaving Springfield.

The Nor'easters had not played a game—yet—and wouldn't for nearly a year and a half. They had just opened their offices in Springfield. Owner Jimmy Mercante (a Springfield businessman) and President and General Manager Bob Cortez eagerly anticipated their first season, which would start in June 2009. But the Falcons' announcement was troubling. The Nor'easters, too, needed to sell plenty of season tickets for the team to thrive in Springfield. Ironically, Buckingham had just begun preparing Nor'easters' ticket offers. He would have the Falcons' announcement in mind as he set prices for the first season—a decision that had to be finalized before mid-June 2008, when tickets were scheduled to go on sale. Buckingham's situation was especially stressful because, although he had a successful decade of experience in marketing various entertainment services, especially live theatre, the sports industry was new to him.

Senior Lecturer Frank V. Cespedes, Laura Winig, and former Professor Christopher H. Lovelock prepared this case solely as a basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. All names and key data in this case have been disguised. This case, though based on real events, is fictionalized, and any resemblance to actual persons or entities is coincidental. There are occasional references to actual companies in the narration. The authors and HBS are grateful to C. J. Knudsen (Vermont Lake Monsters) and Tim Baumann (Lowell Spinners) for their help in finalizing the case.

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The City of Springfield

Springfield, located 90 miles west of Boston, was the third largest city in Massachusetts. Through the 1950s, the city was a vibrant and diverse manufacturing center, but by 2008 only a few large manufacturers remained, and Springfield had lost many higher-wage-earning residents, resulting in a 3.6% drop in average wage income since 1990.ⁱ In 2006, the U. S. government estimated that the median income for a family of three was \$37,800, and the median household income was \$31,046. Nearly 25% of families lived below the poverty line. Approximately 60% of the households in Springfield comprised families with children younger than 18 years of age, 10% were senior citizens living alone or as couples, and 25% were single men or women under age 65 living alone. The remaining 5% comprised all other living configurations.ⁱⁱ

But the news wasn't entirely bad. Though Springfield had long been considered a working-class city, the economy was changing as entrepreneurs, lured by the area's low-cost housing and plentiful labor, opened small businesses. Service industries such as healthcare and financial services offered the hope of future employment opportunities for the city's sizable youth population. Indeed, more than 25% of Springfield's 55,338 residents were under 18 years of age—the highest percentage in the state.ⁱⁱⁱ

Given its size, many newcomers and visitors to the city were surprised to discover how rarely Springfield residents were exposed to professional sporting events. The greater Boston area was home to world-class teams such as baseball's Red Sox, football's New England Patriots, hockey's Bruins, and basketball's Celtics. But the Springfield area itself offered few spectator opportunities for sports fans. Residents could attend college sporting events at local schools. Despite its fame as the birthplace of basketball and as home to the Basketball Hall of Fame—a major tourist attraction—Springfield had no professional basketball team. Aside from the Falcons hockey club, fans who wanted to attend a professional sporting event had to drive elsewhere.

Minor League Baseball

In 2008, there were 176 minor league baseball teams in the U.S., competing through 19 regional leagues. Minor League Baseball® was popular and generally well attended. Tickets were considered very affordable, and the intimate venues allowed fans to get close to the players and the action. Baseball fans liked that the young players were eager to show off their potential and played hard, which made for exciting games.

The teams, located in small and mid-size cities as well as the suburbs of large cities, were considered “player development programs” where young players were expected to hone their skills in progressively challenging minor league classes—A, AA, and the highest, AAA—on their way up (the players hoped) to the major leagues. Each of the 30 teams in Major League Baseball was affiliated with minor league teams to which they could send young players for development at the appropriate level of competition. The major league teams provided funding for players' salaries as well as bat and ball expenses. Minor league teams, however, were responsible for all other operating expenses, including uniform expenses, league dues, staff salaries, office and travel expenses, and stadium leases. Generally, club owners ran their teams as viable businesses (see **Exhibit 1** for Nor'easters' estimated annual operating expenses). Buckingham knew that owner Jimmy Mercante expected to at least break even in the first year. Some of the budgeted \$1.96 million in expenses would be offset by concession sales, and some borne (as noted) by the major league partner, but the rest of the revenue was expected to come from ticket sales.

The team was scheduled to play a 76-game season (38 games played at home), with games scheduled for six evenings (Monday-Saturday) and one afternoon (Sunday) weekly, from mid-June through the first week of September. Players had only a handful of days off sprinkled throughout the season. Springfield College offered the use of its stadium—a former high school football field that in the 1990s had been converted to a 3,600-seat, open-air arena with 2,000-seat bleacher and (under the roof) 1,600 grandstand seats; this was within the standard capacity range for Class A baseball teams. The college provided the stadium in exchange for 100% of the parking revenue (\$4 per car.); thus, the Nor'easters were freed from paying any stadium leasing fees. (See **Exhibit 2** for a diagram of the stadium.) The City of Springfield and three nearby colleges had pledged financial support totaling \$21,000. In addition, local restaurants and hotels, recognizing that the team's games would likely increase their own revenues, pledged \$25,000 in sponsorship and advertising.

Using Existing Research

To be successful, a minor league team had to cultivate a loyal fan base. Upon learning of the Nor'easters' plan to locate in Springfield, Mae Blesch, sports reporter for *The Springfield Daily*, wrote:

The team is going to need to quickly bring together two disparate team audiences in the Springfield community. The first are die-hard sports fans who are tired of driving to Boston or cheering for other cities' teams. The second are the families, the little leaguers, the college students, and the casual fans eager to experience professional ball here in our own hometown.

Blesch's story also quoted general managers from sports teams in other small cities. Their consensus was that flexibility, simplicity, professionalism, and fun were the keys to selling the Nor'easters to Springfield residents. Indeed, one GM noted: "We don't really sell baseball, we sell entertainment. From inflatable bounce houses to prize giveaways to kiddie baseball toss contests, we are in the family fun business." Blesch noted that (unlike Major League Baseball) teams' won-lost records appeared to have little to do with attendance; mediocre teams that provided a high entertainment value often had very high attendance.

Buckingham had data that appeared to support at least some of Blesch's findings. National research conducted in 2005 by the League Sports Association indicated that families with school-age children were three times as likely to attend a baseball game as retirees or families with pre-schoolers. The research also showed that only 8% of those surveyed had attended a professional baseball game^{iv} that year, though 23% had watched one or more games on television. Of course these findings applied to both major and minor league sports (the only data available, unfortunately) so Buckingham knew he had to be careful when using the data to draw conclusions about the minor league market. He also did not know anything about the underlying methodology of the research but reasoned that imperfect data was probably better than none.

Buckingham knew that the college student population, which helped to support a number of college football and basketball (though no baseball) teams in the area, was rarely visible at professional sporting events, likely due to the high cost of tickets and lack of transportation.

To design his ticket offers, Buckingham first had to find out what local baseball fans wanted and what they might be willing to pay to attend minor league games in Springfield. Buckingham planned to analyze the remaining data from the 2005 League Sports Association survey that examined the characteristics of spectator audiences for all professional league sports (for selected results, see **Exhibit 3**).

Nevertheless, Buckingham wanted more than three-year-old survey data and the anecdotal evidence of a local journalist to guide him; he felt he needed a detailed, methodologically rigorous survey on which to build Nor'easters' pricing strategy. "I want to be able to tailor the team's offerings based on knowledge of the local market—where the regional audience has been clearly segmented and analyzed in advance," said Buckingham. He decided to move forward with a market research survey: "Without it, we would be flying by the seat of our pants," he said.

Designing the Survey

At the start of his research project, Buckingham felt his primary research objectives were relatively simple: he wanted to predict how many people would come to see the Nor'easters and how much to charge them. He knew he needed to identify the team's potential audience in terms of demographics and social behavior—i.e., education, income, household composition, and prior sports attendance. He wondered what else he needed to know.

Work began on the survey during the second week of January 2008. To prepare, Buckingham conducted detailed telephone interviews with his counterparts at half a dozen well-established minor league teams around the northeastern U.S. to better understand their businesses and their marketing perspectives. He made several observations:

Most of the marketing directors emphasized the need to price seats on par with the competition—movies, bowling, other sporting events. One MD said, "My city is a lot like Springfield economically, and these folks have to be very careful with a dollar."

Another MD told me he derives his ticket revenue from a mix of season tickets, group sales, and individual ticket sales but couldn't explain exactly how he'd arrived at the proper proportioning among those three categories. I realized I'd have to rely on the survey to help me learn as much as I could about season ticket versus individual ticket buying behavior.

The same MD said that regardless of our findings, we should consider promoting group ticket sales with special promotions to Little League teams, summer camp programs, family days out, and the like. He also told me to keep in mind that ticket prices can be kept reasonably low if we make an effort to secure corporate sponsorships and sell stadium banner ads, for example.

The very first MD I spoke with emphasized concession sales. He said he makes more than half his revenue from snacks, souvenirs, and arcade games alone. I asked the other MDs about concessions; everyone said they were critically important but gave a range of answers as to *how* important. It was clear I needed to include a question about concessions in my survey.

Buckingham realized the issues—particularly those involving the concession sales—were very complex. He was mindful of a gap in his professional background: he had never worked for an organization that could earn meaningful income from hot dogs, sodas, beer, baseball caps, bobblehead figures, and team yearbooks—at a 39% profit margin no less. He realized there might be subtle trade-offs between the pricing of tickets, the structuring of multiple-ticket packages, and the revenue yield from concessions. He'd need to shed some light on these trade-offs through his research.

Buckingham also got some information from his boss, Team President and General Manager Bob Cortez, but getting Cortez to focus on research was difficult. At this point in the team's development, Cortez was tied up endlessly in issues of finance, operations, and government relations. He didn't have much time to consider Buckingham's survey—and when he did, he mainly kept advising Buckingham to “ask them this” and “ask them that.” Buckingham stood firm on this point, warning Cortez that the survey should contain only questions whose answers would affect actual decisions: “It is very easy to fall into the game of 'it would be nice to know',” he said, “but it's counterproductive.” Accordingly, questions were designed with three criteria in mind: maximum information yield for management decisions, question clarity for respondents, and ease of data analysis.

Originally, a mail survey had been planned, but this idea was rejected because it would require six weeks to complete. Instead, Buckingham decided to mail 10,000 postcards that would direct recipients to a Web site where they could complete a questionnaire. Upon doing so, the respondent would be entered into a drawing for a chance to win a \$500 restaurant gift certificate. The online survey data would be tabulated in real time as the surveys were completed. Buckingham estimated he would have results within two weeks of his initial mailing. He felt the total survey budget of \$3,800 (which included postcard design, printing, and postage; the online survey service; and the gift certificate but not the cost of the mailing lists, see below) was very reasonable.

The online questionnaire was pretested three times on friends, relatives, and business associates of the Nor'easters staff (but not on a sample of the mailing group). Several questions posed initially were radically changed or rejected as too complicated; for example, one question, which asked how much respondents would pay for three different types of season tickets (half-season, full-season and a 5-ticket multi-game package) for seats in one of two different sections of the stadium (grandstand admission and bleacher seats) was split into two simpler questions.

The pretest results shed light on individuals who might want to purchase multiple tickets for the same game (for friends and family). These individuals tended to identify themselves as *multi-game* package purchasers, on the assumption that a block of 5 tickets for a single game might be offered at a price similar to that of the 5-ticket multi-game package. As a result, Buckingham believed that, for planning purposes, the club should assume no more than one block of tickets per individual.

Developing the Sample

By the beginning of February 2008, Buckingham had completed the questionnaire design. He had identified two main categories of information to examine: price sensitivity and sports attendance patterns. Questions on these categories, plus others on seat location, concessions, and personal background of respondents, composed the final version of the questionnaire.

The mailing list for the postcard was drawn from two sources. A sample of 5,000 names was taken from Springfield census tracts of households with income above the poverty level. These names were supplied by a broker for a fee of \$90 per thousand names. Another 5,000 names were obtained from the mailing lists of four sports-related organizations in Springfield, each of which had been asked to supply a random sample of names from its database: minor league hockey and college football individual and season ticket buyers and parents of Little League baseball and softball players. The list costs ranged from \$125 to \$130 per thousand names.

In describing Nor'easters' potential fan base, Buckingham said: “Our fans can be anybody who can enjoy a good ball game, and I think that means fans can come from any class, any gender, and any part of town.” Buckingham saw no contradiction between this definition of a fan base and the

survey sample frame. "The goal of the survey is to identify people who would respond and subscribe without ever having seen a Nor'easters game," he explained.

The postcards inviting survey participation were mailed February 12, 2008. Within a week, 510 Internet responses had been received; another 75 people without access to the Internet called the toll-free number listed on the postcard to complete their survey via telephone. Approximately 4% of the postcards were returned to Buckingham as undeliverable. Ultimately, 625 responses were tabulated.

Although there were variations in the response rates for the census tract mailing list and those for the sports organization lists (see **Exhibit 4** for response rates by list), subsequent analysis showed no significant differences in the nature of the responses given by census tract versus sports organization respondents. Buckingham was also pleased to learn that the sample respondent characteristics were fairly representative of the Springfield market. Although the sample was more heavily weighted toward households with children under 18 years of age (64%) than toward the population as a whole (60%) he believed this was to be expected, since the mailing contained two lists of known parents of young children.

Analyzing the Results

After the survey results were tabulated (see **Exhibit 5** for survey questions shown with percentage response distributions), Buckingham constructed a pricing matrix; along the top were columns for the possible ticket prices, and down the side were rows for each type of ticket offer (see **Exhibit 6**).

Then he used the survey data to calculate the optimal prices and placed them in the chart. As Buckingham explained, "We need to figure out optimal pricing assuming we offer fans the ability to buy full-season, half-season, and 5-ticket packages as well as individual tickets." He continued, "We know our costs for the entire season and management expects me to sell enough tickets and concessions product to at least break even."

Buckingham wanted to make sure he didn't price the tickets too low and leave money on the table. "Our prices should be high enough so that anyone who can and will pay *a lot* to attend will do so. At the same time, anyone who really wants to come shouldn't be put off by what they perceive as too-high prices." Buckingham felt it was important to have a top ticket price high enough to distinguish the Nor'easters from the college teams but low enough to lure fans away from driving to Boston. The local colleges charged between \$5 and \$6 per adult and \$3 per child for general admission tickets. The region's minor league hockey and baseball teams charged between \$6 and (at AAA level) \$26 per single ticket, depending upon the location of the seat. Deep discounts—40% or more—were offered on season tickets.

The major league teams had already announced their 2008 season pricing: single seats for Boston Red Sox games ranged from \$12 for a limited number of upper bleacher seats to \$325 for dugout box seats; fans could not even purchase season tickets as they were sold out years in advance. Buckingham would keep all this data in mind as he set Nor'easters' prices.

For the purpose of making the concession sales calculations easier, Buckingham would have liked to assume that everyone who purchased a ticket would show up for the game, but on this point Bob Cortez recommended caution. "We're always going to have some percentage of no-shows on advanced sale tickets," he said. Buckingham and Cortez agreed that for individual tickets—which were almost always purchased on the day of a game—they would assume 100% attendance but that

for the 5-game, 20-game season, and 38-game season packages, an attendance drop to 97%, 95%, and 90%, respectively, was a logical expectation—as long as ticket prices were reasonable.

Buckingham strived to keep in mind that his real goal was to maximize *both* ticket income and attendance: “We know that if we price too low, we inadvertently encourage a high no-show rate—after all, skipping a game you’ve paid only a couple of bucks for is no big deal even to fans of limited means. But no-shows can’t buy hot dogs or baseball caps.” Buckingham used the survey data to calculate likely “per seat” concession revenue. “If we trust the survey results, I think we’ll bring in good revenue from concessions. That result is not inconsistent with the information other Class A marketing directors gave me.” Buckingham knew that once he determined the ticket and concession revenue, he would recognize whether achieving breakeven was a reasonable objective. With a mixture of anticipation and apprehension, he began to click through the survey results screens.

There was a knock on the door frame of Buckingham’s cubicle. Cortez said, “Hey, Larry, when are you going to show me those sketches of possible team logos you commissioned? Jimmy’s eager to see them.” Buckingham realized that he’d been so focused on his survey—and its consequences for the Nor’easters—that he’d forgotten to open the express-mail package he’d received from the artist that morning. Cortez quipped, “Hey, if we don’t like what the artist has done, maybe we can pick up the name *Falcons*. Birds always generate good logos, and it looks like our hockey-playing friends down the street might not need theirs any more.”

Exhibit 1 Estimated annual operating expenses, Springfield Nor'easters

Fixed expenses	
Players' salaries	\$887,000 ^a
Bats and balls	\$22,500 ^a
Uniforms	\$8,000
League dues	\$175,000
Staff salaries	\$124,000
Office expenses	\$110,000
Team travel	\$455,000
Market research & mailing lists	\$4,879
Advertising, sales, and marketing	<u>\$175,000</u>
Total fixed expenses	\$1,961,379

^a These two expense categories are paid for by the major league team with which the Nor'easters are affiliated.

Exhibit 2 Nor'easters Stadium

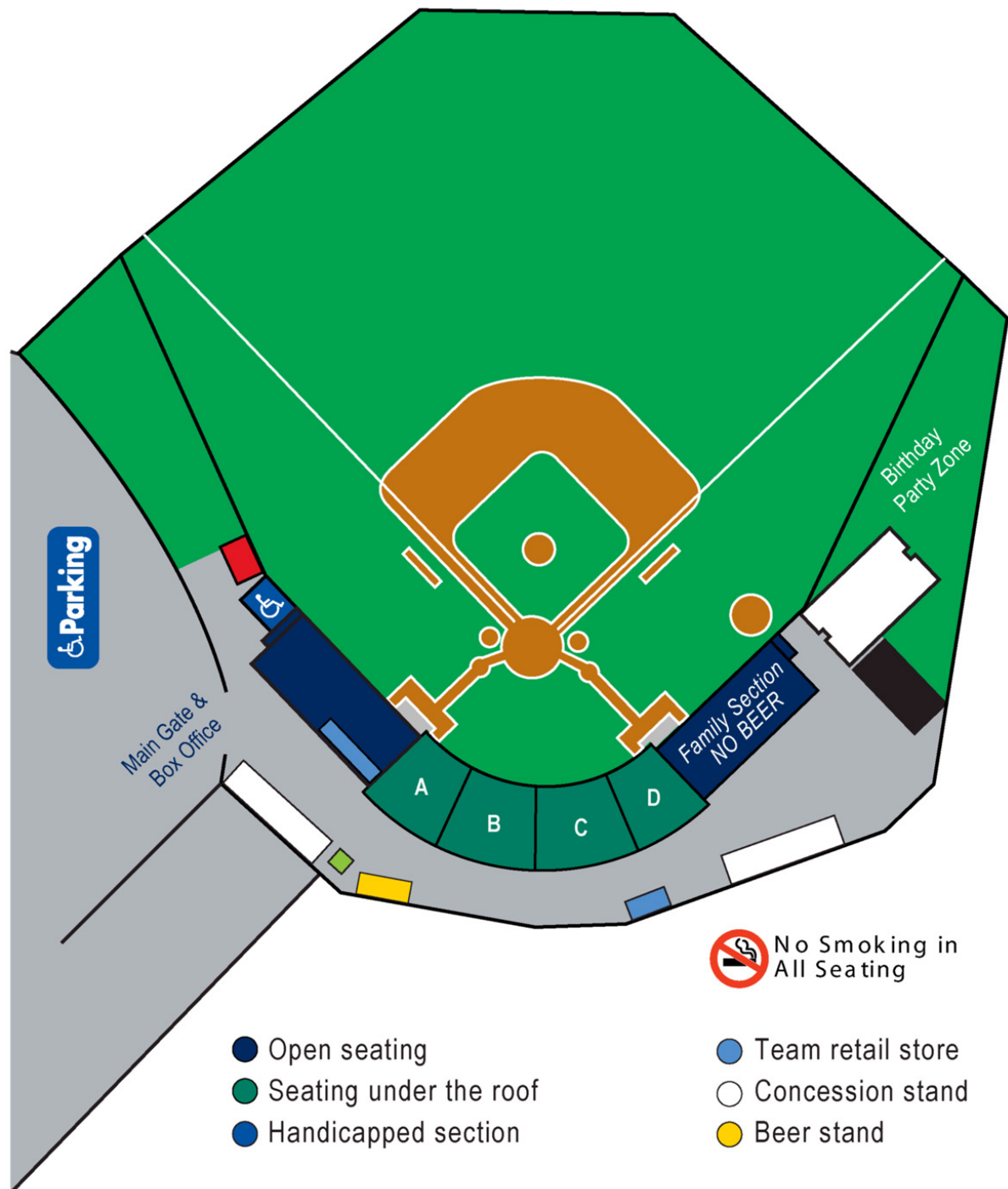


Exhibit 3 Selected findings from League Sports Association survey, 2005*A. Total Percent Exposed During Past Year by Education*

	Baseball	Football	Basketball	Hockey
College graduate	7	5	2	2
Some college	12	5	2	2
High school graduate	23	14	6	7
Some high school	39	26	11	13

B. Income Composition of Audiences of Four Professional Sports

	Baseball	Football	Basketball	Hockey
\$75,000 and over	13%	12%	15%	20%
\$45,000 to \$74,999	40	37	34	32
\$22,500 to \$44,999	33	34	32	30
Up to \$22,499	<u>14</u>	<u>17</u>	<u>19</u>	<u>18</u>
	100%	100%	100%	100%

C. Educational Composition of Audiences of Four Professional Sports

	Baseball	Football	Basketball	Hockey
College graduate	18%	21%	20%	18%
Some college	26	18	18	16
High school graduate	23	24	24	26
Some high school	<u>33</u>	<u>37</u>	<u>38</u>	<u>40</u>
	100%	100%	100%	100%

Source: League Sports Association.

Exhibit 4 Response rate by list for postcard mailing

List Source	Mail Qty	List Cost, per thousand names	Undeliverables	Net Response ^a
Springfield residents, census tract	5,000	\$90	250	5.2%
Minor league hockey team, individual, and season ticket buyers	2,871	\$125	97	6.1%
College football individual and season ticket buyers	1,380	\$125	41	7.6%
Parents of little league baseball players, 2007-08 season	441	\$130	20	17.3%
Parents of girls softball players, 2007-08 season	<u>308</u>	\$130	<u>12</u>	11.4%
Total	10,000		420	

^a Net response is response expressed as a percentage of questionnaires completed less undeliverable postcards.

Exhibit 5 Survey Questionnaire and Response Distributions

Question	Response						
	Yes	No	Not sure				
1. Do you consider yourself a baseball fan?	38%	60%	2%				
2. In the past year, have you attended a professional baseball game?	28%	72%	0%				
3. During the past two or three years, how often have you attended a major-league game?		Never	1-2 times	3-4 times	5 or more times	Not sure	
4. During the past two or three years, how often have you attended a minor-league game?	76%	20%	1%		3%	0	
5. During the past two or three years, how often have you attended a college game?	83%	14%	1%		2%	0%	
	79%	17%	2%		2%	0%	
6. Have you ever purchased a season ticket for a sporting event?		Yes	No				
	23%		77%				
7. If a minor league baseball team came to Springfield, is it likely you would (select one):							
Not attend at all		61%					
Probably attend just one game		21%					
Probably subscribe to a 5-game package		11%					
Probably subscribe to a 20-game half season		5%					
Probably subscribe to a 38-game full season		2%					
8. If you were to attend one game, what would you be willing to pay?		Less than \$4	\$4	\$6	\$8	\$10	\$12 \$14
	0%	2%	5%	13%	31%	27%	22%
9. If you were to purchase a multi-game package of 5 tickets, what would you be willing to pay per game ?		Less than \$4	\$4	\$6	\$8	\$10	\$12 \$14
10. If you were to purchase a half-season ticket for 20 games, what would you be willing to pay per game ?	1%	2%	3%	19%	36%	34%	5%
11. If you were to purchase a full-season ticket for 38 games, what would you be willing to pay per game ?	1%	7%	23%	28%	25%	15%	1%
	18%	26%	20%	14%	11%	10%	1%
12. What would you be willing to pay, per game, for a grandstand seat over and above the cost of a bleacher seat?		nothing more	10% more	25% more	50% more		
	24%	48%	19%	9%			
		Nothing	\$5	\$6-\$10	\$11-15		
13. How much do you expect to spend on snacks, souvenirs and arcade games, per person , for each game you attend?	8%	11%	45%	36%			
14. What is your age?		18 or under	19-25	26-35	36-45	46-55	56-65+
	1%	7.00%	30%	21%	19%	19%	
15. Are you:		Female	Male				
	56%	44%					
16. How many children, ages 5-16, live with you?		None	One	Two	Three	Four	More than 4
	34%	38%	18%	7%	2%	1%	
17. What is the last grade in school or college that you completed?		Some high school	High school	Some college	College degree		
	28	28	31	13			
18. For statistical purposes only, which of the following broad categories represents your household's annual income?		Up to \$22,499	\$22,500-\$44,999	\$45,000-\$74,900	\$75,000 and over		
	18%	36%	40%	6%			

Exhibit 6 Buckingham's pricing matrix worksheet

Ticket Type	\$ per ticket						
	Less than \$4	\$4	\$6	\$8	\$10	\$12	\$14
Single ticket							
5-game ticket							
20-game half-season							
38-game season							

Endnotes

ⁱ Paul N. Foster, et. al., "A demographic and economic analysis of the city of Springfield," Regional Information Center, Pioneer Valley Planning Commission, September 2006, available http://www.springfieldcityhall.com/planning/fileadmin/Planning_files/Springfield_Market_Study_2006.pdf, accessed 18 April 2008.

ⁱⁱ 2006 American Community Survey, Springfield, Massachusetts, U. S. Census Bureau, http://factfinder.census.gov/servlet/ACSSAFFacts?_event=Search&geo_id=&_geoContext=&_street=&_county=springfield&_cityTown=springfield&_state=04000US25&_zip=&_lang=en&_sse=on&pctxt=fph&pgsl=010, accessed 18 April 2008.

ⁱⁱⁱ Paul N. Foster, et. al., "A demographic and economic analysis of the city of Springfield," Regional Information Center, Pioneer Valley Planning Commission, September 2006, available http://www.springfieldcityhall.com/planning/fileadmin/Planning_files/Springfield_Market_Study_2006.pdf, accessed 18 April 2008.

^{iv} Major or minor league, within 2 hours' driving distance.